

**Analytical review
on the banking system performance results
for the first quarter of 2013**

1. On the banking system state and development

The National Bank of the Republic of Abkhazia analyses of credit institutions activities outcome for the first quarter of 2013 showed positive results in some kinds of banking activities in comparison with the beginning of 2013. At the same time, the core direction of banking activities that is credit relations with borrowers still shows unsatisfactory results.

Due to the great number of prolonged and delinquent loans, the depreciated loans still take the considerable share (II-V categories of quality) of 51, 4 % in the total sum of credit investments and in comparison with the beginning of the year their share has increased to 8, 4 percentage points, which means the non-effective use of credit recourses in the economy of the country.

There are general indicators presented by the Bank of Abkhazia in table 1 below and the head of each credit institution will have an opportunity to evaluate their participation in both positive and negative indicators forming, thus, to determine possible measures in improving the banking system performance results.

1.1. The Main Indicators on Credit Institutions

Table 1

**Indicators of Credit Institutions Activities
For the 1st quarter of 2013**

(thousand rubles)

INDICATORS	As of 01.01.13	As of 01.04.13	Growth rate (%)
Number of operating credit institutions	11	11	100
including:			
settlement non-banking credit institutions (RNCO)	2	2	100
Own capital*	1 181 593	1 077 811	91, 2
Including:			
- the authorized capital	454 749	454 749	100

INDICATORS	As of 01.01.13	As of 01.04.13	Growth rate (%)
Consolidated balance currency (gross)	7 271 578	7 422 643	102,1
Loan indebtedness and equivalent loans**	2 983 525	2 847 827	95,5
- ratio in the assets (%)	41,0	38,4	93,7
a) Prolonged loans	463 683	452 292	97,5
- ratio in the total sum of credit investments (%)	15,5	15,9	102,6
б) Loan arrears	479 383	556 368	116,1
- ratio in the total sum of credit investments (%)	16,1	19,5	121,1
Reserves on possible loan loss	585 659	668 544	114,2
Deposits (natural persons' accounts)	475 055	491 981	103,6
- ratio in Russian rubles (%)	87,6	86,7	99,0
- ratio in foreign currency (%)	12,4	13,3	107,3
Deposits of juridical persons	11 577	12 383	107,0
Financial result (one credit institution shows neither profit nor loss)	for the 1 st quarter. 2012r.	for the 1 st quarter 2013r.	
a) profit***	- 54 844	- 24 216	-
- number of profitable credit institutions	10 447	16 015	153,3
б) loss	6	5	83,3
- number of unprofitable credit institutions	65 291	40 231	61,6
	8	6	75,0

*) The sum of own capital is given considering the corrections inserted in the calculation procedure in accordance with the Bank of Abkhazia Standard Acts.

**) considering the guarantees and interbank deposits

***) The sum of profit is given without the amount of loss adjustment.

The data in Table 1 shows the number of changes in the credit institutions activities in the first quarter of 2013 in comparison with the beginning of the year results. Thus, as of 01 April 2013 the total sum of credit institutions own capital has reduced by 103 782 thousand rubles.

The consolidated balance currency for credit institutions as a whole has increased by 151,1 million rubles or by 2,1% and the sum of credit investments has reduced by 135, 7 million rubles; the growth rate is 95, 5 %.

The financial result for credit institutions as a whole is negative minus 24, 2 million rubles; however in comparison with the first quarter of 2012 the loss has reduced by 2, 3 times. 6 out of 11 credit institutions showed loss.

Adverse situation on the reimbursement of credits has not practically changed since the beginning of the year. Thus, loan arrears have increased by 77 million rubles; prolonged loans have decreased by 11,4 million rubles; however their shares in the sum of credit investments have increased by 3, 4 and 0, 4 percentage points correspondingly. The sum of reserves on possible loan loss has also increased by 14, 2% in comparison with the beginning of the year.

1.2 The structure of liabilities based on the consolidated balance of credit institutions as of 01 April 2013.

As of 01 April 2013 the consolidated balance currency of credit institutions makes up 7 422,6 million rubles; in comparison with 01 January 2013 the growth rate is 102,1% and the absolute sum makes up 511,1 million rubles.

The structure of liabilities based on the consolidated balance of credit institutions

Table 2

as of 01.04.2013

(thousand rubles)

№ s/n	Indicators	Period				Growth rate, (%)
		01.01.13		01.04.13		
		sum	ratio, (%)	sum	ratio, (%)	
1.	Funds attracted	3 277 017	45,0	4 669 576	62,9	142,5
	including:					
	-Funds on correspondence ac- counts opened for other banks	2 355	0,0	32 550	0,4	1382,2
	-interbank credits and deposits	1 282 451	17,6	1 094 573	14,7	85,4
	including:					
	-credits granted by the National Bank	1 162 451	16,0	1 094 172	14,7	94,1
	-funds on customers' accounts (ju- ridical persons)	1 125 793	15,5	1 058 210	14,3	94,0
	-juridical persons' deposits	11 577	0,2	12 383	0,2	107,0
	-accounts receivable	1 922	0,0	1 589 141	21,4	82681,6
	-funds on natural persons' ac- counts	377 864	5,2	390738	5,3	103,4
	-natural persons' deposits	475 055	6,5	491981	6,6	103,6
2.	Own capital (gross)	1 182 825	16,3	1 179 005	15,9	99,7
3.	Other funds	2 811 736	38,7	1 574 062	21,2	56,0
	In total:	7 271 578	100,0	7 422 643	100,0	102,1

The own capital (gross) increased by 0,3 % or by 3,8 million rubles and the own capital of credit institutions considering the adjustments increased by 103,8 million rubles and reached 1 077,8 million rubles. Other funds also decreased by 44,0 %, which makes up 1 574,1 million rubles.

The funds attracted increased by 42,5 % from 3 277,0 million rubles up to 4669,6 million rubles due to the growth of both funds on correspondence accounts opened for other banks and accounts receivable.

As of 01 April 2013 the total sum of natural persons' (residents and non-residents) deposits (accounts) makes up 491,9 million rubles and the data on their maturity periods are given in Table 3.

Table 3

The structure of natural persons' deposits (accounts) in accordance with their maturity period based on the consolidation balance of credit institutions as of 01 April 2013

(thousand rubles)

№ s/n	Deposits on maturity period	01.01.13		01.04.13		Growth rate, (%)
		sum	ratio, (%)	sum	ratio, (%)	
1.	Demand accounts	53 736	11,2	64 382	13,1	119,8
2.	Up to 30 days	2 000	0,4		0,0	0,0
3.	From 31 to 90 days	4 673	1,0	7 584	1,5	162,3
4.	From 91 to 180 days	26 369	5,6	19 447	4,0	73,7
5.	From 181 to 1 year	110 074	23,2	128 049	26,0	116,3
6.	From 1 to 3 years	192 663	40,6	194 101	39,5	100,7
7.	Over 3 years	85 540	18,0	78 418	15,9	91,7
	Total:	475 055	100,0	491 981	100,0	103,6
	including:					
	in foreign currency	58 920	12,4	65 320	13,3	110,9
	In Russian rubles	416 135	87,6	426 661	86,7	102,5

The analysis of the population accounts structure reveals the prevailing share of deposits for the period from 1 to 3 years. As of 01 April 2013 the given category of deposits takes 39,5 % of the total sum of accounts. The accounts for the period from 181 days to 1 year also take a substantial share of 26 % and in comparison with the beginning of 2103 their share increased by 2,78percentage points.

The growth of deposits, especially the fixed ones, allows building up the credit institutions resource base and with its help to expand the crediting of the country economics.

The banking system effective functioning depends on the state of credit institutions liabilities. The resource base is of high priority as the processes of credit resources forming and loans granting are closely connected.

The volume of active credit operations and therefore the income of credit institutions depend on the resource potential and its stability.

1.3. The structure of assets based on the consolidated balance of credit institutions as of 01 April 2013.

As of 01 April 2013 the consolidated balance currency (gross) of credit institutions makes up 7 422,6 million rubles; in comparison with the beginning of the year it has increased by 2,1%.

The total sum of credit investments takes a considerable part of 38,4 % in the total assets structure which amounts to 2 847,8 million rubles and in comparison with 01 January 2014 it has decreased by 135,7 million rubles and by 2,6 percentage points. With that the prolonged loans and the loan arrears take 35,4 % in the structure of credit investments, which share has increased by 3,8 percentage points.

In the assets structure the fixed assets take 8,5% and in comparison with epy showings as of 01 January 2013 they increased by 1,9 % which makes up 631,5 million rubles. The short-received percents take 8,2% or 605,5 million rubles. In fact, the assets structure is non-effective and for some credit institutions the share of interest income is low.

The structure of credit investments on the borrowers' categories is reflected in Table 4.

Table 4

The structure of credit investments of credit institutions on borrowers as of 01 April 2013.

№ s/n	Borrowers	as of 01.01.13		as of 01.04.13		Growth rate, (%)
		sum	ratio, (%)	sum	ratio, (%)	
1.	Government enterprises	87 648	2,9	103 606	3,6	118,2
	including:					
	loan arrears	22 555	0,8	44 355	1,6	196,7
2.	Non-governmental sector of economy (juridical persons)	1 686 781	56,7	1 640 344	57,8	97,2
	including:					
	loan arrears	180 302	6,0	190 627	6,7	105,7
3.	Other banks	134 968	4,5	14 968	0,5	11,1
	including:					
	loan arrears	14 968	0,5	14 968	0,5	100,0
	Total: juridical persons	1 909 397	64,1	1 758 918	61,9	92,1
	including:					
	loan arrears	217 825	7,3	249 950	8,8	114,7
4.	Individual entrepreneurs	229 132	7,7	259 119	9,1	113,1
	including:					
	loan arrears	21 697	0,7	21 180	0,7	97,6
5.	Natural persons	842 247	28,2	824 715	29,0	97,9
	including:					
	loan arrears	238 161	8,0	282 538	9,9	118,6
	Total:	2 980 776	100,0	2 842 752	100,0	95,4

	including:					
	Loan arrears	477 683	16,0	553 668	19,5	115,9

***) without considering guarantees and deposits**

Thus, the credit granting to juridical persons (without credit institutions) has decreased by 1,7% and their share in the total sum of granted loans has increased from 59,6 % to 61,4 %.

The non-governmental sector of economy takes the maximum ratio of 57,8% in the total sum of granted credits; the governmental enterprises take 3,6% of the total sum of granted credits.

The credits disbursement to natural persons has reduced by 2,1% making up 824,7 million rubles; therefore their share has increased by 0,8 percentage points. The credits disbursement to individual entrepreneurs has increased by 13,1% which makes up 259, 1 million rubles. The indicators characterizing the credit relations with borrowers (business entities) with their breakdown by credit objects (objects of financing) are given in Table 5.

**Information
on the credits granted by credit institutions
by objects of financing, borrowers and on the credit investments structure
as of 01 April 2013**

(thousand rubles)

Nos /n	INDICATORS	Objects of fi- nancin gcode	Credits granted	Ratio in the total sum (in %):	
				On objects of fi- nancing	Credit in- vestments
	A. Credits to business entities				
1	For material assets forming (purchase) in total	(01-05)	133 780	7,7	4,7
	of which for:				
	- industrial enterprises	1	70 120	4,0	2,5
	-resort and tourist activities	2	3 300	0,2	0,1
	-agriculture	3	3 878	0,2	0,1
	-fast food provision	4	250	0,0	0,0
	-other activities	5	56 232	3,2	2,0
2	For the purchase of goods for trade including fuel and lubricants and construction materials	6	551 027	31,6	19,4
3	For construction, reconstruction and repair of objects, in total	(07-14)	602 792	34,6	21,2
	including:				
	- for industrial, transport and trade purposes	7	173 241	9,9	6,1
	- for resort and tourist purposes	8	285 005	16,3	10,0
	- for cultural, educational, sport and entertaining purposes	9	10 860	0,6	0,4
	-for agricultural activities	10	1 090	0,1	0,0

	- for health and household purposes	11	51 968	3,0	1,8
	-housing	12	63 800	3,7	2,2
	-catering	13	15 628	0,9	0,5
	-infrastructure (roads, bridges, electrical lines and water pipes)	14	1 200	0,1	0,0
4	For the purchase of machinery, equipment and transport	15	284 760	16,3	10,0
5	For planting and growing of perennial	16	6 518	0,4	0,2
6	Payment and settlement credits (payment of salaries, transfer of funds to budget, non-budgetary funds)	17	19 958	1,1	0,7
7	For other purposes	18	145 115	8,3	5,1
8	Subordinate loan	19	-	-	-
	Total according to objects of financing		1 743 950	100,0	61,4
	Б. Credits to credit institutions	x	14 968	x	0,5
	В. Credits to individual entrepreneurs	x	259 119	x	9,1
	Г. Credits to natural persons for consumer needs in total	x	824 715	x	29,0
	including:				
	-non-residents	x	25 183	x	0,9
	Credits disbursed in total*	x	2 842 752	x	x
	including:				
	Structure of credit investments, loans:				
	-fixed-date		1836792	x	64,6
	-prolonged		452 292	x	15,9
	-the loan arrears		553 668	x	19,5
	Quality of credit investments (depreciated loans of II-V categories)		1 463 214	x	51,5
	Reserve sum for possible losses on loans		668 545	x	45,7 (к сумме обеспеченных ссуд)

Note: *) Taking into account guarantees and deposits;

Table 5 data show the quality of loan portfolio with their breakdown by credit objects (objects of financing).

As a whole the credits granted to juridical persons excluding the credits granted to credit institutions make up 1 743, 9 million rubles and their share in the total sum of credit investments is 61, 4%.

The considerable part of credits used for construction, reconstruction and repair of the fixed assets in the total sum of credits granted to juridical persons makes up 34,6% (602,8 million rubles). The total sum of the credit granted for the purchase of goods for sell including fuel and lubricants and construction materials makes up 551 million rubles. The ratio in the total sum of

credit investments is 19,4 %. The purchase of machinery, equipment and transport takes 284,8 million rubles and their share makes up 10, 0 %.

1.3.1. Information on the quality categories of the credits granted.

Table 6

The quality of credit institutions' credit portfolio with considering the loan on guarantees and interbank deposits.

(thousand rubles)

Indicator	As of 01.01.2013		As of 01.04.2013		Growth rate, (%)
	Sum	Ratio, (%)	Sum	Ratio, (%)	
Amount of standard loans	1 701 782	57,0	1 384 613	48,6	81,4
Amount of non-standards loans	437 727	14,7	547 277	19,2	125,0
Amount of doubtful loans	328 636	11,0	304 601	10,7	92,7
Amount of non-performing loans	64 892	2,2	83 864	2,9	129,2
Amount of uncollectible loans	450 488	15,1	527 472	18,6	117,1
Total:	2 983 525	100	2 847 827	100	95,5

*) the sums are given with considering the loan on guarantees and deposits.

Table 6 data shows that in comparison with 01 January 2013 when the total loan sum decreased by 4, 5%, the share of "standard loans" decreased by 18, 6% or more then 14, 1 percentage points. At the same time, "non-standard loans" increased by 25% (their share by 4, 5 percentage points); "doubtful loans" increased by 29,2 % and "uncollectible loans" – by 17, 1 % (their shares increased by 0,7 and 3,5 percentage points correspondingly).

The fact that borrowers fail to reimburse credits within the periods set in the agreements leads to recurred prolongation of credits by banks as well as to creation of loan arrears and interest arrears at their balances. As a result, credit resources turnover slows down, they decrease and credit institutions receive less income and profit because of the low profitability of credit investments. It all shows that financial state of borrowers, their creditability and playability, quality and liquidity of the proposed guarantees have not been studied enough. As a result, depreciated loans are growing at credit institutions balances.

As of 01 April 2013 for all credit institutions the total sum of depreciated loans (II-V categories) reached 1 463, 2 million rubles and in comparison with the beginning of the year it increased by 14, 2 % and their share in the total sum of credit investments makes up 51, 4 %. The sum of the accrued reserves for possible loan losses reached 668,5 million rubles, the share of which in the total sum of loans makes up 45,7%, and to the sum of credit investments - 23,5%.

For some credit institutions the depreciated loans take a large share in the total sum of credit investments. For example, for Non-banking Credit Institution “Eshera” and Non-banking Credit Institution “Ochamchira”, CB “Garant-bank”, CB “Fininvest Bank” they take 100%; for CB “Amra-bank” - 93,6%; for “KIBIT-bank” - 91,1%; CB “Black Sea Development Bank” - 75,1%. It all shows the low quality of credit portfolio and the failure of borrowers to reimburse credits within the periods set in the credit agreements. However, the periods of credit reimbursement are repeatedly prolonged for borrowers instead of demanding to reimburse credits within the periods set in the agreements.

Consequently, credit resources to be used for credit granting for other economic entities with effective performance are reducing and interest income is decreasing.

2. On the financial results of credit institutions activities

The financial condition of credit institutions depends directly on the income received and the expenditures made. For first quarter of 2013 the total sum of income on credit institutions makes up 262,5 million rubles which is 8, 4% lower than the sum expenditures made.

The sum of income received exceeded the sum of expenditures for 5 out of 11 credit institutions: the Savings Bank of Abkhazia by 15,3%; CB “Gagra-bank” – by 7,1 %; CB “Garant-bank” by 5,3%; CB “Universal-bank” by 1,0%; CB “The Black Sea Development Bank” – by 0,1 %. The consolidated balance of credit institutions for the 1st quarter of 2013 showed a negative financial result and the loss of 24, 216 million rubles.

The most important and significant criteria in the evaluation of credit activities is the interest yield. As a whole on credit institutions the share of interest yield in the total sum of income takes 42 % and for 8 credit institutions the share of interest yield is considerably low in comparison with the share of credit exposure in the total assets, in particular, CB “Amra-bank” by 50 percentage points (p/p), CB “The Black Sea Development Bank” by 48 p/p; CB “KIBIT-bank by 42 p/p and others.

The analysis of interest yield testifies to a considerable lack of income due to the untimely requests made to borrowers in order to reimburse credits within the periods set in the agreements. As a result, substantial interest is not reimbursed by borrowers which leads to creation of loan arrears on it and to the increase of interest claims (сч 47427).

As of 01 April 2013 and based on the monthly sum of loan arrears and a quarter of the annual interest rate the actual interest yield should have been not less than 161, 9 million rubles or to increase the actually reimbursed by borrowers sum of interest by 52, 7 million rubles. In practice, this sum is being further enlarged by the sum of unpaid interest. There is a lack of substantial sums of interest collection for the following credit institutions: CB “Amra-bank” – 7,3 million rubles; the Savings Bank of Abkhazia – 6,9 million rubles; CB “Garant-bank” - 4,3 million rubles; CB “Sukhum-bank” – 4 million rubles and others.

In fact, it happens because the credit institutions do not set up claims to borrowers on the improvement of debt service quality, the provision of timely reimbursement of loans and the payment of interest.

At the same time, the unsatisfactory financial condition of credit institutions testifies to unsatisfactory study of borrowers' financial condition when considering their requests for credit granting which decreases the quality of credit portfolio and leads to creation of loan arrears and interest arrears.

At credit operations it is, first of all, essential to guarantee the reimbursement of credit and payment of interest and consequently to fulfill the main goal of credit institutions activities that is to receive profit.

In this respect, the measures to ensure profitable activities and to strengthen financial condition shall be taken; in case these legal requirements are not fulfilled the Bank of Abkhazia shall take corresponding measures up to and including the revocation of license.

In order to provide more qualified evaluation of the economy state in the region and in the whole Abkhazia, the Bank of Abkhazia sends the main indicators of social and economic development of the regions of Abkhazia for January-March 2013 (see the Attachment), that shall be taken into consideration while organizing monetary and credit relations with clients.

